

Employers' Group

Newsletter June 2014



Towards an efficient and balanced energy policy for the EU



I am pleased to welcome the members of Group I to Aberdeen. I wish we could have made your visit longer and shown you more of what this part of Scotland has to offer, which is a lot more than the place where the world's best Malt whisky is made.

In 1969 oil was struck off the coast of Scotland and propelled Aberdeen to become the oil capital of Europe. Aberdeen is like no other city in Europe and the rural area of Aberdeenshire is also very different. For over 35 years the oil industry protected this area of Europe from financial crisis or recession. This has brought it problems but it has also given us a very privileged position and has allowed businesses to develop and the citizens of this area to become actively involved in the oil industry. The people of this area now work in the oil industry throughout the world.

Aberdeen is a coastal city that has had long historical links with other cities and areas in Scandinavia, the Baltic states, Poland and our nearest neighbours across the North Sea. I hope you enjoy your brief stay in Aberdeen and we have a motto for the city which is Bon Accord. This gives us the toast - "Happy to meet, sorry to part, happy to meet again – Bon Accord"



Brendan Burns
Member of the Employers' Group

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The EU needs a new energy policy

Ulla Sirkeinen

Europe is facing increasingly serious energy challenges. Energy prices in Europe are much higher than in competing regions, causing problems of competitiveness. The dependence on energy imports from unreliable sources is still increasing, even if the problem has been known for decades. Some regions experience balancing problems of electricity supply. Greenhouse gas emissions are not decreasing everywhere as they should. Carbon leakage already seems to be a reality.

These problems are partly due to external developments that we have little or no influence on, like the shale gas revolution in the US. But some of them stem from our own policy measures, and some from the lack of European political action.

EU energy policy was for many years in the service of climate policies. The climate challenge remains our most important long term challenge. But policy measures in this area must from now on take full account of other important political goals, like competitiveness, job creation, social needs and security of energy supply.

A diversification of energy sources is badly needed for reasons of security of supply, but also to counteract increasing energy prices. Measures to increase the use of renewable energy have proven very successful, but some problems caused by this fast development have become obvious. Support measures to renewable energy have contributed to the increase of energy prices in the EU. The intermittent nature of wind and solar power cause increasingly balancing problem of electricity networks and require the use of costly, mostly fossil balancing

power. These problems need to be tackled in order to ensure a healthy continuing increase of the use of renewables. At the same time we need more of other low carbon energy technologies, like shale gas and nuclear.

Better energy efficiency holds big potentials that need to be tapped in an intelligent and flexible way, in particular in the building sector. Many industries, in particular the energy intensive industries, have already decreased their energy usage intensity considerably, with little more to be done with present technologies.

Within the business sector there are many differing interests concerning energy and climate policies. For many companies these policies create demand and growing business, even if the promises of lots of jobs in the renewable energy sector have not been delivered. A big part of businesses can well adapt to the new challenges. But some industries are facing serious problems. While restructuring over time – creative destruction – is natural in the world of enterprise, loss of competitiveness should not be caused artificially by badly planned policy measures.

Many branches of energy intensive industries in Europe are competing in open global markets without a possibility to add unilateral extra costs to their prices, and are therefore under risk of carbon leakage. These industries are also in most cases the most energy and carbon efficient globally, rendering possible carbon leakage in practice an increase of global emissions. EU's policies should therefore not result in increased energy costs, direct or indirect, for these industries, or they should include clear provisions for offsetting these increased costs. The provisions for



unilateral extra costs to their prices, and are therefore under risk of carbon leakage. These industries are also in most cases the most energy and carbon efficient globally, rendering possible carbon leakage in practice an increase of global emissions. EU's policies should therefore not result in increased energy costs, direct or indirect, for these industries, or they should include clear provisions for offsetting these increased costs. The provisions for

carbon leakage need to provide full free allocation of technically achievable benchmarks until new technologies are proven to deliver substantial emission reductions in an economically sound manner.

The ultimate real solution to climate and energy policy challenges is innovation. The EU and Member States as well as other financial actors must act radically to tap this potential by supporting both deployment of new technologies and attempts at more risky breakthrough innovations. Without real technology jumps in many sectors the long-term goals cannot be achieved. In order to deliver these innovations we need a competitive industrial sector, and by adapting to this challenge the sector can remain competitive and conquer new ground. The key enabling factor here is high-quality training.

In order to reply to our energy challenges the first and most cost-efficient thing to do is to finally make the internal energy market a reality. Combining different national resources and approaches and thereby different

energy mixes could provide cost-effective regional systems and markets, contributing to balancing, generation adequacy and security of supply. Investments in necessary transmission capacity, including interconnectors, are long overdue.

A European Energy Community is needed to deal with both internal and, in particular external, energy challenges in the most effective way. A truly common energy policy has to replace the pursue of narrow national interest.

About the author:

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Sustainability - do we know what we keep talking about?

Josef Zbořil

"How many people is the Earth able to sustain? The question is incomplete as it stands. One must modify the question by asking further: At what level of technology? And modify it still further by asking: At what level of human dignity?"

Isaac Asimov

"Sustainability," or "sustainable development," is a topic of our time and by its nature is ambiguous and elusive. Studies of sustainability have identified the following major components: economy and technology; ecology and demography; and governance and equity. We have considered these components as being embedded in the prevailing myths - those deep premises about how the world works which we take for granted. In industrial and trading societies, the economic myth of self-interest dominates.

We are prisoners of our own mindsets and language, and that understanding can be furthered with a new word or image, and especially a new story. We know our successors will have a richer language to discuss sustainability and our task is to shine a light in their direction.

We recognise that ecosystems are complex and not well understood; we have fuzzy limits to growth. But we know that the real limits to growth lie within us, not outside, and that we cannot be fully human without being sensitive to the needs of the planet - the home of those to come.

Technology and economic success can change the nature of risk for individuals and societies. But **sustainable development is concerned with more than the management of man-made environmental vulnerabilities.** We must not only balance present and

future prosperity, but also ensure a measure of social equity for all. Our inability to do so may lead to the misery of war and social conflict. It is for this reason that we look to enlightened governance to ensure that human ingenuity can be focused on creation rather than destruction.

We are dealing with complex human and ecological systems over long time-frames.

Whatever we think about where we are in relation to the critical thresholds of the earth's **carrying capacity**, the simple truth is that *no one knows*.

Of the many possible scenarios that could be constructed in response to the challenge of sustainable development, all begin with three pre-determined driving elements or **givens: the new, the many, and the connected**. These are the driving forces that shape the global business environment and that will be present in any sustainability scenario.

The New: Social and technological innovations lead to many new products and processes, and these will inevitably affect sustainability. In addition to social and technological innovations, another important area of **the new** concerns the economy, which has an increasing number of new players.

The Many: In the next 40 years, the population will increase from 7 billion today to close to 10 billion. Material and energy consumption will grow substantially, putting an enormous additional strain on ecosystems. This will be accompanied by an increase in the diversity of the actors who seek to wield their influence.



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the paper industry and the environment

Recommended reading:

Ulrich Golüke *"When Enough is Enough: Making Sense of What's to Come"*

Jorgen Randers *"2052: A Global Forecast for the Next Forty Years"*

Vaclav Smil *"Harvesting the Biosphere: What we have taken from nature"*



The Connected: We are connected more closely and in more ways than we had previously realised, both to our

fellow human beings and to the environment of which we are a part. The extent of our interconnectedness has changed the speed with which knowledge is transferred and problems are perceived - but not the speed with which these problems are solved!

The three **givens** form the background against which two other drivers - **uncertainties** might develop. **The key uncertainties** can be summarised as follows:

- What are the critical thresholds as regards soil, air, climate, water, and biodiversity, and how do we recognise these limits? How resilient is the global ecosystem? **Carrying Capacity**
- What human social systems can best respond to the challenge of sustainable development? **Governance**

As things stand at present, the key problem stems from understanding governance. Many advocates of sustainability preach global governance in which a limited number of "wise prophets" would set and police the rules of the game. On the other hand, distributed power, combined with responsibility seems to be gaining ground, since the success of such fundamental changes of mindsets cannot be ordered by any authority. The actors must be convinced and they must look for ways and processes leading towards global sustainability. I believe that sustainability recognises that individuals want it all: human dignity, prosperity and care for the planet.

R&D and Innovation in the Energy Sector

Gerd H. Wolf



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The need for a secure, affordable, environmentally sound and sustainable supply of useful energy was already identified some time ago, as reflected for example in the Lisbon, Gothenburg and Barcelona European Council decisions. Furthermore, at that time, the Committee had already stressed that supplying and using energy puts a strain on the environment, presents risks, depletes resources and involves the problem of external dependence and imponderables. In this regard, the Committee made the point that the most important measure for reducing the risks associated with the security of energy supply – and other risks - is to ensure the most diverse and balanced possible use of all types and forms of energy, including all efforts to save energy and use it rationally.

In this context, the Committee also stressed that no secure, long-term, environmentally sound and economically viable energy supply exists – either in Europe or elsewhere in the world. The key to potential solutions can lie only in further intensive research and development. Energy research and development is the strategic element and essential mainstay of any long-term, successful energy policy.

Addressing this issue, an abstract produced for last year's meeting of the Nobel Laureates in Chemistry (in Lindau) stated that: "Our world is at present mostly running on fossil fuels – oil, coal and natural gas – using energy harnessed from the sun and stored by photosynthetic organisms many million years ago. The rapid exploitation of these valuable resources over the last 2 centuries, which are not renewable on a human time scale, has led to inevitable shortages - and the economic, social and political consequences are already being felt today. Furthermore the burning of carbon-rich fuels has increased CO₂ concentrations in the

atmosphere that are related to climate changes with many adverse effects for our planet and human society..... It is therefore one of the great challenges of mankind to identify and develop alternative sustainable energy sources..... Enormous scientific, technological and economical efforts are needed to initiate the energy transition away from the dominance of fossil energy carriers."

These needs were also addressed in a series of European Commission proposals/programmes (including the European Strategic Energy Technology Plan and HORIZON 2020) and the corresponding opinions of our Committee. The most recent of these was the opinion on "Energy Technologies and Innovation".

Issues to be dealt with in this context are:

- What are the specific problems and needs?
- Who should pay (and how much) for the required R&D efforts?
- What are the main candidates for new inventive solutions or improvements?

Some answers to these questions will be covered in the presentation to be given at the Aberdeen meeting and some of the key points are set out below.

Who should pay? This concerns the balance between public and private (mainly industry) support, and between the predominant share from the Member States and the EU contribution, with around EUR 8 billion

About the author:

Prof. Gerd Wolf

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of German Research Centres (HGF)



earmarked in the HORIZON 2020 budget for energy R&D (over the period from 2014-2020). Public-private partnerships can play an important role here.

Which are the main candidates? These include:

- The whole spectrum of renewables
- Improved and safe nuclear energy
- Carbon capture and sequestration (CCS)
- Efficiency and savings
- System integration etc.
- Cross-sectional issues like new materials

During a transition period, replacing the use of coal by natural gas would reduce the emission of CO₂ by about 50%.

In many Member States, renewables are the preferred candidates. Where hydro is insufficient, the preferred option is solar and wind. However, the main problem of wind and solar power is their intermittent character, resulting in the need to cope with large overcapacities and

install or develop efficient storage systems. Although storage systems based on power-to-gas or power-to-liquid solutions are not yet efficient enough, they have considerable potential for replacing the fossil fuels which may still be needed for some time in areas such as the sea and air traffic sectors. This therefore makes them a particularly important object for inventive solutions. A further promising candidate for the longer-term future is nuclear fusion, which has huge potential. Its applicability, however, has yet to be demonstrated."



Steel is European

And that's how it should remain

George F. Babcoke

The European Council - comprising the Heads of State or Government of the 28 EU Member States - met in March in Brussels to discuss the European energy and climate framework for 2030 and industrial competitiveness. As expressed in the letter from our sector's chief executive officers to EU leaders, sent prior to this Council, it is crucial to redress the balance between EU industrial, energy and climate policies, in order to preserve the competitiveness of the industries that are at the core of the European economy and also to guarantee regulatory stability, consistency and predictability for industrial investment, innovation, growth and jobs in Europe.

ENERGY DEPENDENCY AND SECURITY

The long-expected meeting focused primarily on how to reduce the EU's high energy dependency (on Russia); particularly relevant of course in the context of the ongoing situation in Ukraine. We, in Slovakia, were among those worst affected by the Russia-Ukraine gas crisis in early 2009 and therefore very much welcomed the Council's instruction to the Commission to conduct a study into measures to deal with the EU's Achilles' heel and boost European energy security.

Although the share of Russian energy in EU imports fell from 45% in 2003 to nearly 30% in 2013, according to

available data, there are still 13 Member States that depend on Russia for more than 50% of their supply, and six of these depend on Russia entirely (Slovakia, Finland, Bulgaria and the three Baltic states).

According to European Council President Herman Van Rompuy, energy dependency matters for energy prices, it matters for industrial competitiveness and it matters for EU foreign policy. I fully concur. Moreover, as he also said, with no action, by 2035 the EU will be dependent on foreign exports for up to 80% of our oil and gas.

ENERGY COSTS

Europe is a resource-constrained continent and, as a result, energy prices in the EU have risen sharply in recent years, resulting in a marked deterioration in the global competitiveness of EU industry. According to the communication *Energy prices and costs in Europe* released by the Commission along with the 2030 energy and climate framework, European industry pays two to three times more for electricity and gas than our main competitors outside the EU. As the European Parliament clearly acknowledged in its resolution of 4 February 2014 on the Action Plan for a competitive and sustainable steel industry in Europe, "we see that the EU environment and energy policy create a difficult business environment for the iron and steel industry, in particular in raising the price of energy and making EU manufacturing uncompetitive on the global market". It therefore declared its full support for "the Commission's promise to step up efforts to decrease the energy price and cost gap between the EU industry and its main competitors".

The EU leaders - very importantly for us - have agreed, inter alia, to accelerate efforts to complete the internal energy market, improve the energy flow across the continent with more interconnections and promote the gradual transition of support mechanisms for renewables into a more effective market system (with regard to costs).



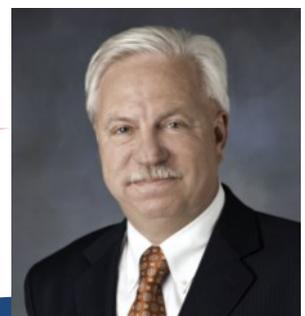
Obviously, the choice will be left to the Member States to "take appropriate measures to reduce costs in accordance with the means which are the best adapted to their situations". The European Council also asked the Commission to carry out an in-depth examination of different national practices regarding the tax and network cost components of energy costs, in order to reduce the negative repercussions on prices. This is particularly important for energy-intensive industries such as our own. In Slovakia, the regulatory burden (RES levies, network

costs and other taxes) currently represents around 40% of our total bill for electricity, up from less than 25% in 2008. European industry is a global leader in the energy efficiency and carbon intensity of production. Industries, such as steel, are indispensable for Europe's skills base,

innovation, resource efficiency, environmental protection, employment and growth, and thus Europe's ability to compete in the global race. It is essential that steel be made in Europe.



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Events planned for the second half of 2014

It will be an intensive second half of the year for the members of the Employers' Group. A number of external events are planned for the autumn.

In October 2014, the Employers' Group is hosting a workshop on the TTIP during the European Forum for New Ideas in Sopot, Poland.

On 27-28 October 2014, an extraordinary meeting of the Employers' Group will take place in Rome. As Italy takes over the Council of the EU from Greece, our discussion will reflect on the priorities of the Italian presidency from the employers' perspective.

On 6-7 November 2014, members of the Employers' Group bureau will meet in Prague in the Czech Republic. Cooperation between business and government in a bid to boost employment will be a key issue at the meeting.

EESC celebrates
the 500th
Plenary Session
9-10 July 2014



New Member of the Employers' Group

We would like to welcome a new member of the Employers' Group, Mr Dominique Michel, who replaced Mr Yves Verschueren.

Mr Michel is CEO of COMEOS (Belgian Federation of Commerce and Services) and Vice-President of Eurocommerce (since 2010). Between 2006 and 2008 he was Head of Multinational Enterprises Program in the International Labour Office in Geneva. Prior to that he was a Secretary General of Agoria (Belgium's trade association and employers organisation of the technology industry) and worked for United Nations Office for Project Services (UNOPS), Deutsche Telekom and Tractebel-Suez.

He holds various Degrees in Economics, International and European Law and Economic Law. He graduated also Senior Management Program on Harvard University.



Christophe Zeeb appointed to the Ministry of Finance of Luxembourg

We would like to announce that Christophe Zeeb, member of the Employers' Group, has resigned from his mandate at the EESC due to his new professional appointment. Mr Zeeb is now working for the Ministry of Finance in Luxembourg. We would like to thank Mr Zeeb for his work at the EESC and wish him all the best in his forthcoming professional challenges.

Mr Zeeb has been a member of the European Economic and Social Committee since November 2012. He was a member of the sections TEN, SOC and ECO. He was a rapporteur of the opinion on anti-money laundering, adopted by the EESC in May 2013.



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